

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-051
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Jason Jones

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#09-051

53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements	6
Report Distribution	13



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ronald Kicinski, President
Board of Directors
53rd DAA, Desert Empire Fair
520 S. Richmond Road
Ridgecrest, California 93555

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 53rd District Agricultural Association (DAA), Desert Empire Fair, Ridgecrest, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 53rd DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 53rd DAA, Desert Empire Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

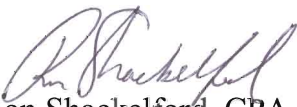
The 53rd DAA, Desert Empire Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between January 19, 2010 and January 29, 2010. My staff met with management on January 29, 2010 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

January 29, 2010

**53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
As of December 31, 2008 and 2007

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash & Cash Equivalents	111 - 117	\$ 31,101	\$ 30,107
Accounts Receivable, Net	131	14,856	11,101
Deferred Charges	143	1,637	3,251
Construction in Progress	190	5,271	-
Land	191	71,375	71,375
Buildings and Improvements, Net	192	1,376,156	1,399,006
Equipment, Net	193	-	9,642
TOTAL ASSETS		<u>\$ 1,500,396</u>	<u>\$ 1,524,482</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	35,754	11,374
Current Portion of LT Debt	212.5	9,514	11,669
Taxes Payable	221 - 226	3,716	523
Deferred Income	228	5,993	13,311
Guaranteed Deposits	241	3,712	2,631
Other Liabilities	243	3,034	3,024
Compensated Absences Liability	245	48,406	47,287
Long Term Debt	250	209,982	207,827
Total Liabilities		<u>320,111</u>	<u>297,646</u>
Net Resources			
Net Resources - Operations	291	(47,750)	(33,690)
Net Resources - Capital Assets	291.1	1,228,035	1,260,526
Total Net Resources Available		<u>1,180,285</u>	<u>1,226,836</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,500,396</u>	<u>\$ 1,524,482</u>

**53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
Capital Project Funds	319	56,401	44,623
Other	340	37,935	14,511
Admissions	410	31,211	39,762
Commercial Space	415	11,200	13,635
Carnival	421	10,993	11,270
Food Concessions	422	10,447	12,078
Exhibits	430	1,699	1,640
Attractions - Fairtime	460	11,010	8,172
Motorized Racing	461	22,122	28,805
Miscellaneous Fair	470	9,481	9,279
Miscellaneous Non-Fair	470.5	68,274	74,126
Non-Fair Revenue	480	142,364	139,267
Prior Year Adjustment	490	150	393
Other Revenue	495	26,780	11,649
Total Revenue		<u>590,067</u>	<u>559,210</u>
EXPENSES			
Administration	500	233,549	227,906
Maintenance and Operations	520	173,950	154,542
Publicity	540	11,206	12,207
Attendance	560	9,282	8,776
Miscellaneous Fair	570	4,662	3,506
Miscellaneous Non-Fair	570.5	32,774	30,220
Premiums	580	2,260	2,420
Exhibits	630	4,988	3,720
Attractions - Fairtime	660	23,594	26,557
Motorized Racing	661	28,554	29,831
Interim Entertainment Expense	668	20,301	10,125
Non-Capitalized Expenses	723	7,686	885
Prior Year Adjustments	800	100	(283)
Cash Over/Short from Ticket Sales	850	90	11
Depreciation Expense	900	83,622	85,571
Reimbursable Expenditures	930	-	17,661
Total Expenses		<u>636,618</u>	<u>613,655</u>
RESOURCES			
Net Change - Income / (Loss)		(46,551)	(54,445)
Resources Available, January 1		1,226,836	1,281,281
Resources Available, December 31		<u><u>\$ 1,180,285</u></u>	<u><u>\$ 1,226,836</u></u>

**53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses	\$ (46,551)	\$ (54,445)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(3,755)	3,766
(Increase) Decrease in Deferred Charges	1,614	(3,251)
Increase (Decrease) in Current Portion of Long-term Debt	2,155	(8,817)
Increase (Decrease) in Deferred Income	(7,317)	6,302
Increase (Decrease) in Accounts Payable	24,380	(19,096)
Increase (Decrease) in Compensated Absence Liability	1,118	7,918
Increase (Decrease) in Taxes Payable	3,193	(1,065)
Increase (Decrease) in Other Liabilities	10	450
Increase (Decrease) in Guarantee Deposits	1,081	(1,274)
Total Adjustments	<u>22,479</u>	<u>(15,067)</u>
Net Cash Provided (Used) by Operating Activities	<u>(24,072)</u>	<u>(69,512)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	(5,271)	-
(Increase) Decrease in Buildings & Improvements	22,850	54,460
(Increase) Decrease in Equipmen	<u>9,642</u>	<u>9,642</u>
Net Cash Provided (Used) by Investing Activities	<u>27,221</u>	<u>64,102</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>(2,155)</u>	<u>(11,673)</u>
Net Cash Provided (Used) by Financing Activities	<u>(2,155)</u>	<u>(11,673)</u>
NET INCREASE (DECREASE) IN CASH	994	(17,083)
Cash at Beginning of Year	30,107	47,190
CASH AT END OF YEAR	<u><u>\$ 31,101</u></u>	<u><u>\$ 30,107</u></u>

53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 53rd District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Desert Empire Fair each year in Ridgecrest, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no

depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities

to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash & Change Fund	\$ 2,880	\$ 200
Cash in Bank – Operating	2,844	14,955
Cash in Bank – Credit Card	12,132	2,116
Cash in Bank – Investment & Savings	<u>13,245</u>	<u>12,836</u>
 Total Cash and Cash Equivalents	 <u>\$ 31,101</u>	 <u>\$ 30,107</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 17,479	\$ 13,724
Allowance for Doubtful Accounts	<u>(2,623)</u>	<u>(2,623)</u>
 Accounts Receivable - Net	 <u>\$ 14,856</u>	 <u>\$ 11,101</u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 2,627,348	\$ 2,576,218
Less: Accumulated Depreciation	<u>(1,251,192)</u>	<u>(1,177,212)</u>
Building & Improvements - Net	<u>\$ 1,376,156</u>	<u>\$ 1,399,006</u>
 Equipment	 \$ 93,904	 \$ 93,904
Less: Accumulated Depreciation	<u>(93,904)</u>	<u>(84,262)</u>
Equipment - Net	<u>\$ -</u>	<u>\$ 9,642</u>

NOTE 6 LONG-TERM DEBT

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project on the fairgrounds. In June 2008, the Fair received a 13-month loan suspension period from June 2008 to June 2009. These payments were added to the final payment in April 2019. The next payment due is in July 2009.

The terms of the agreement are as follows:

CCA Photovoltaic Loan:

Loan Amount	\$ 300,000
First Payment Date	May, 2004
Payment Amount	\$ 1,667
Duration of Loan	180 Months
Interest Rate	Zero, Principle Only
Total Outstanding at 12/31/08	\$ 219,496
Current Portion at 12/31/08	\$ 9,514
Long-Term Portion at 12/31/08	\$ 209,982

NOTE 7

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 53rd DAA Board of Directors
1	Chief Executive Officer, 53rd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

MANAGEMENT REPORT #09-051

YEAR ENDED DECEMBER 31, 2008

53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
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Jason Jones

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#09-051

TABLE OF CONTENTS

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS	3
Delegated and Opportunity Purchases	3
Sponsorship Policies and Procedures	3
NON-REPORTABLE CONDITIONS	5
Courtesy and Credential Passes	5
Independent Contractors	5
DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE.....	6
CDFA EVALUATION OF RESPONSE.....	9
DISPOSITION OF AUDIT RESULTS.....	10
REPORT DISTRIBUTION	11



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ronald Kicinski, President
Board of Directors
53rd DAA, Desert Empire Fair
520 S. Richmond Road
Ridgecrest, California 93555

In planning and performing our audit of the financial statements of the 53rd District Agricultural Association (DAA), Desert Empire Fair, Ridgecrest, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Desert Empire Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 53rd DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 53rd DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 53rd DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 53rd DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 53rd DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 53rd DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: delegated and opportunity purchases, and sponsorship policies and procedures. We have provided four recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 53rd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

DELEGATED AND OPPORTUNITY PURCHASES

The Fair did not have Delegated Purchasing Authority from the Department of General Services (DGS) in 2008. According to Purchasing Authority Manual (PAM), Section 1.1.7 and Public Contract Code (PCC), Section 10308 & 10309, without a delegation of authority from DGS the Fair is not authorized to purchase goods over \$100 without obtaining prior approval. However, in order to obtain this authority, the Fair is required to submit a "Request for Delegated Purchasing Authority," to DGS on a yearly basis. Failure to adhere to DGS requirements could lead to the denial of any future purchasing authority requested by the Fair.

The Fair made opportunity purchases during 2008. However, the Fair failed to document whether opportunity purchases meet or beat the state price and, by failing to list the price, did not adequately complete the STD 65, Purchasing Authority Purchase Order. Opportunity purchases allow DAAs to purchase commodities from any source provided it meets or beats prices available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and substantiate price information or exemption justification when necessary. Merely stating that the local price was equivalent to or less than that available through the state purchasing program does not sufficiently meet the documenting criteria.

Recommendations

- 1. The Fair should work with DGS to obtain Delegated Purchasing Authority. Furthermore, the Fair should submit a yearly "Request for Delegated Purchasing Authority" in a timely manner to ensure the authority does not expire. Once a purchasing authority expires, the Fair is prohibited from making delegated purchases that exceed \$100.*
- 2. The Fair should follow proper procedures when making opportunity purchases and adequately document local and state pricing for items purchased. This includes actual price quotes and listing prices to complete the form.*

SPONSORSHIP POLICIES AND PROCEDURES

In examining the policies and procedures for sponsorship agreements, our office noted the following deficiencies:

- a. The Fair does not have any established sponsorship procedures. The Division of Fairs and Expositions (F&E) Contract Manual, Chapter 6 § 6.40, requires the DAA to follow all of the following steps to secure sponsorship agreements: a) establish the procedure, b) Board approves the procedure and maintains a copy in their contract office, and c) the DAA follows the approved procedures. It should be noted that although the DAA's sponsorship agreements generally are not subject to F&E approval, California Food and Agriculture code 4051.1(b) does require F&E pre-notification on sponsorship

Management Report #09-051

Ridgecrest, California

agreements that exceed \$100,000 in value, have a term of over two (2) years, or contemplate building a permanent structure on the property.

- b. The Fair does not maintain or have sponsorship agreements that state the financial considerations, details of in-kind trade, special arrangements, agreement length, and the event for which the sponsorship is in effect.

Recommendations

3. *The Fair's Board of Directors should comply with F&E Contract Manual, Chapter 6 § 6.40 and establish and approve procedures for sponsorship arrangements.*
4. *The Fair should maintain a signed detailed sponsorship agreement for all sponsorships. A written sponsorship agreement that contains sufficient detail would prevent any misunderstandings from occurring between the two parties about performance.*

NON-REPORTABLE CONDITIONS

COURTESY AND CREDENTIAL PASSES

The Fair did not keep records of courtesy and credential passes issued. Therefore, our office was unable to determine the appropriateness of any credential or courtesy passes issued. California Department of Food and Agriculture Code Section 3028 says, "Each fair shall maintain complete records of the number of credential and courtesy pass admissions which are issued for each fair period."

Recommendation

The Fair should track credential and courtesy passes and strengthen internal controls over these passes by justifying and supporting the business purpose for issuing these passes. This is to ensure individuals or vendors are issued the appropriate pass.

INDEPENDENT CONTRACTORS

The Fair did not prepare and submit the DE 542, Report of Independent Contractors, to the Employment Development Department (EDD) as required. Information contained on the form is used to assist the state and county agencies in locating parents who are delinquent in their child support obligations. This report is to be submitted to the EDD within 20 days of paying/contracting for \$600 or more in services received by the DAA.

Recommendation

The Fair should ensure that the DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for \$600 or more in services.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



53RD DISTRICT AGRICULTURAL ASSOCIATION
STATE OF CALIFORNIA

DESERT EMPIRE FAIR

A CommUNITY Project

520 South Richmond Road • Ridgecrest, California 93555

Telephone (760) 375-8000 • FAX (760) 375-8134

M.J. 'Mike' Thomas
Chief Executive Officer
defceo@ridgecrest.ca.us

March 8, 2010

California Department of Food & Agriculture
Audit Office
2014 Capitol Avenue, Suite 107
Sacramento, California 95811

Attn. Ron Shakelford, Audit Chief

Please accept this letter as our response to the audit conducted by your office for the year ending 2008.

Delegated and opportunity purchases

1. The Fair will by June 1, 2010 have the required Delegated Purchasing Authority in place and will submit in a timely manner for a request for reauthorization before years end.
2. The Fair will follow proper procedure in opportunity purchases and obtain and document the local and State pricing.

Sponsorship Policies and Procedures

1. The Fair is now in the process of establishing procedures for sponsorship agreements per the F & E Contract manual, Chapter 6, section 6.4. This will be done by June 1, 2010 also.
2. The Fair will maintain a signed detailed sponsorship agreement that contains all of the parameters of the agreement.

Sincerely,



Michael J Thomas
Chief Executive Officer



Ron Kicinski
President

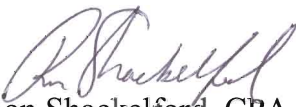
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 53rd DAA, Desert Empire Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between January 19, 2010 and January 29, 2010. My staff met with management on January 29, 2010 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

January 29, 2010

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 53rd DAA Board of Directors
1	Chief Executive Officer, 53rd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office